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VOLUME 3

ECONOMIC, SOCIAL AND POLITICAL

27 November 1957

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FOREWORD

This volume consists of a compilation of staff papers prepared by the members of the Security Resources Panel of the Office of Defense Mobilization. The views expressed are those of the individual members and the working groups, and do not necessarily reflect the views of the Panel as a whole, nor of the Steering Committee of the Panel.

The Security Resources Panel was established by the Science Advisory Committee pursuant to NSC Action 1691-b(2), April 4, 1957. The work of the Panel was supported by the Institute for Defense Analyses, under Contract DM-35 with the Office of Defense Mobilization.

This is one of three volumes prepared by various working groups of the Security Resources Panel. These volumes are entitled:

- VOLUME 1 - Active Defense and SAC Vulnerability (GGTSRD-853)
- VOLUME 2 - Passive Defense (GGTS-854)
- VOLUME 3 - Economic, Social and Political (GGTS-855)

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ECONOMIC, SOCIAL AND POLITICAL

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THE SOVIET ECONOMIC AND SOCIAL THREAT

An important measure of the magnitude and timing of the Soviet threat is provided by four basic indicators:

- a. The relative magnitude and growth of U.S. and USSR gross national products,
- b. The relative rates of investment in basic production,
- c. The size and disposition of the two labor forces,
- d. The size and impositions of the defense budgets.

The data from which these indicators are derived are based upon a continuing analysis of the Soviet economy by CIA since

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In short, the data available as to the Soviet GNP and its utilization, defense expenditures, and employment of the labor force, while obviously not strictly comparable to those available for the U.S., have been proven, over the last five years, to be reasonably reliable.

#### GROSS NATIONAL PRODUCT

In summary, a comparison of the Soviet GNP and its growth with U.S. figures, when both are measured in dollars, indicates that:

- a. The Soviet GNP is now approximately 40% of the GNP of this country.
- b. The Soviet GNP is increasing at an annual rate of 6-6.5%, as compared with an annual growth in this country of 3.5%.
- c. Although Soviet GNP now approximates only 40% U.S. GNP, it will reach 55% of U.S. GNP by 1970, assuming a continuation of the rates of growth cited above. (Figure 1)

#### INVESTMENT AND CONSUMPTION

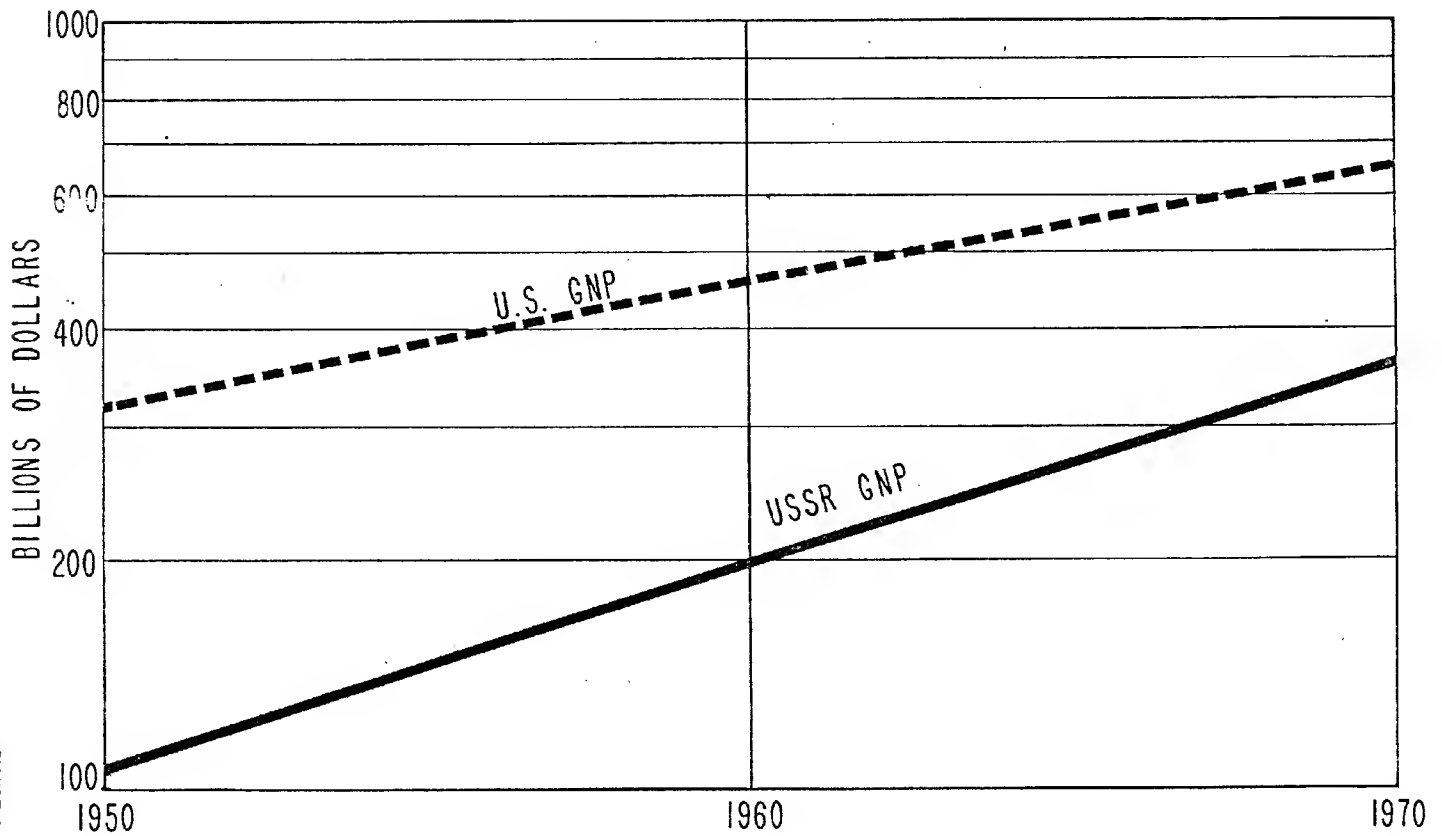
Upon closer examination of GNP's in both countries, the full import of the Soviet economic threat assumes more striking proportions.

Of its lesser GNP, the Soviet Union is devoting 25% to investment versus 15-18% in this country.

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## SOVIET GNP IS RAPIDLY CATCHING UP WITH U.S. GNP



Although Soviet consumption on an aggregate basis is only one fourth that of the U.S., its aggregate investment is probably about two thirds our own, while its defense production currently approximates our own. Soviet investment in heavy industry is currently about \$17 billion per year. This represents 90% of their total industrial investment, while only 10% of industrial investment is in the consumers goods area. A much larger part of U.S. industrial investment is going into the expansion of consumer goods output. (Figure 2)

The significance of these two points is underlined by the accompanying Figure that pictures the "Production of Selected Capital and Consumer Goods." (Figure 3)

The real magnitude of the Soviet economic threat is revealed when the consequences of a persistent annual investment of one fourth the Gross National Product is depicted.

For example, between 1950 and 1956 --

Crude steel production (in metric tons) has been increased by 80%;

Electric power production (in billion) has been increased by 110%;

The value of machine tools produced (in dollars) has been doubled;

The production of test turbines and generators (in kw) is up threefold;

The value of electronics (in dollars) has been multiplied sixfold;

The production of sulphuric acid (in thousand metric tons) has been doubled.

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SOVIET INVESTMENT ESTIMATES SHOW AN EVEN MORE RAPID RATE OF INCREASE THAN DOES SOVIET GNP.

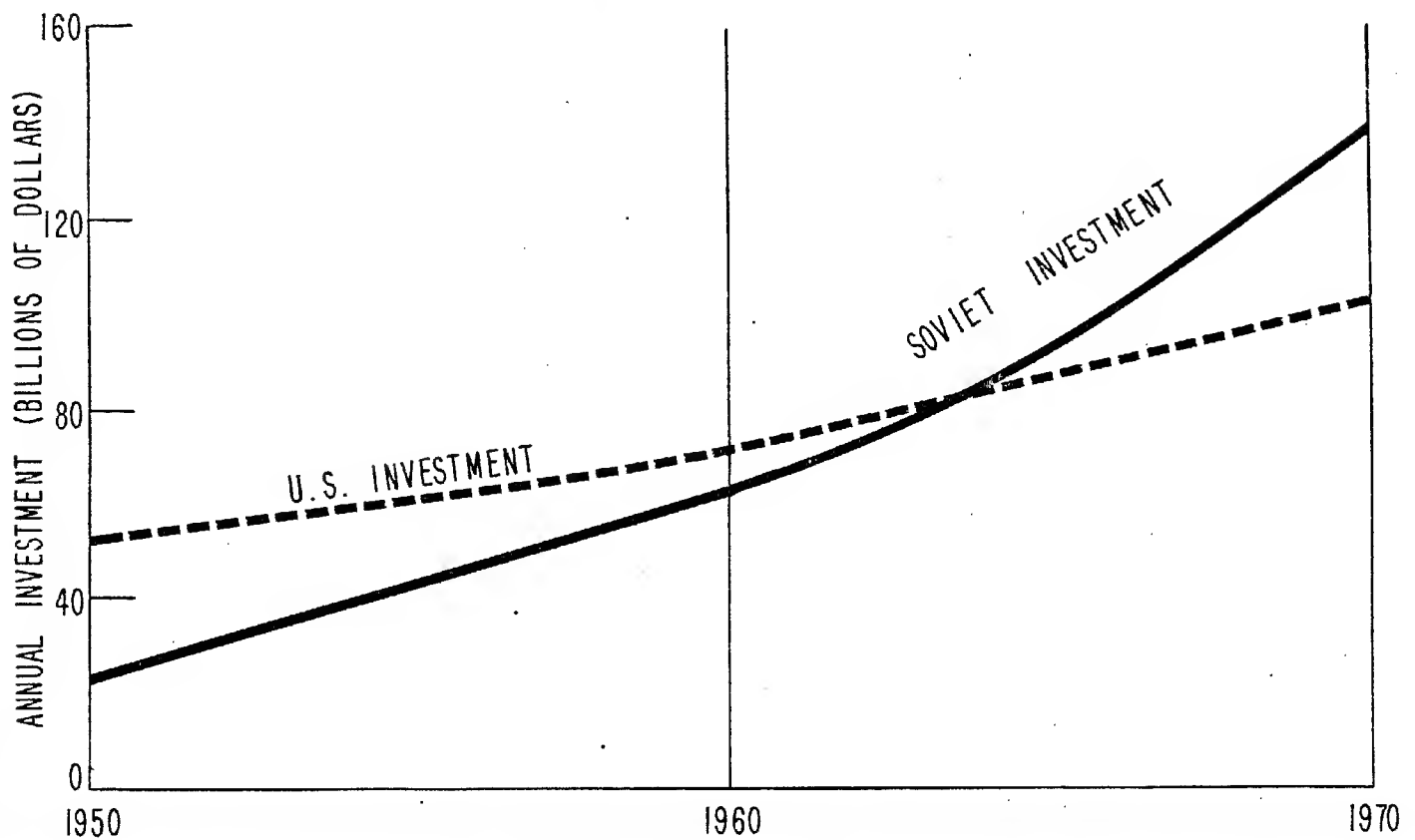
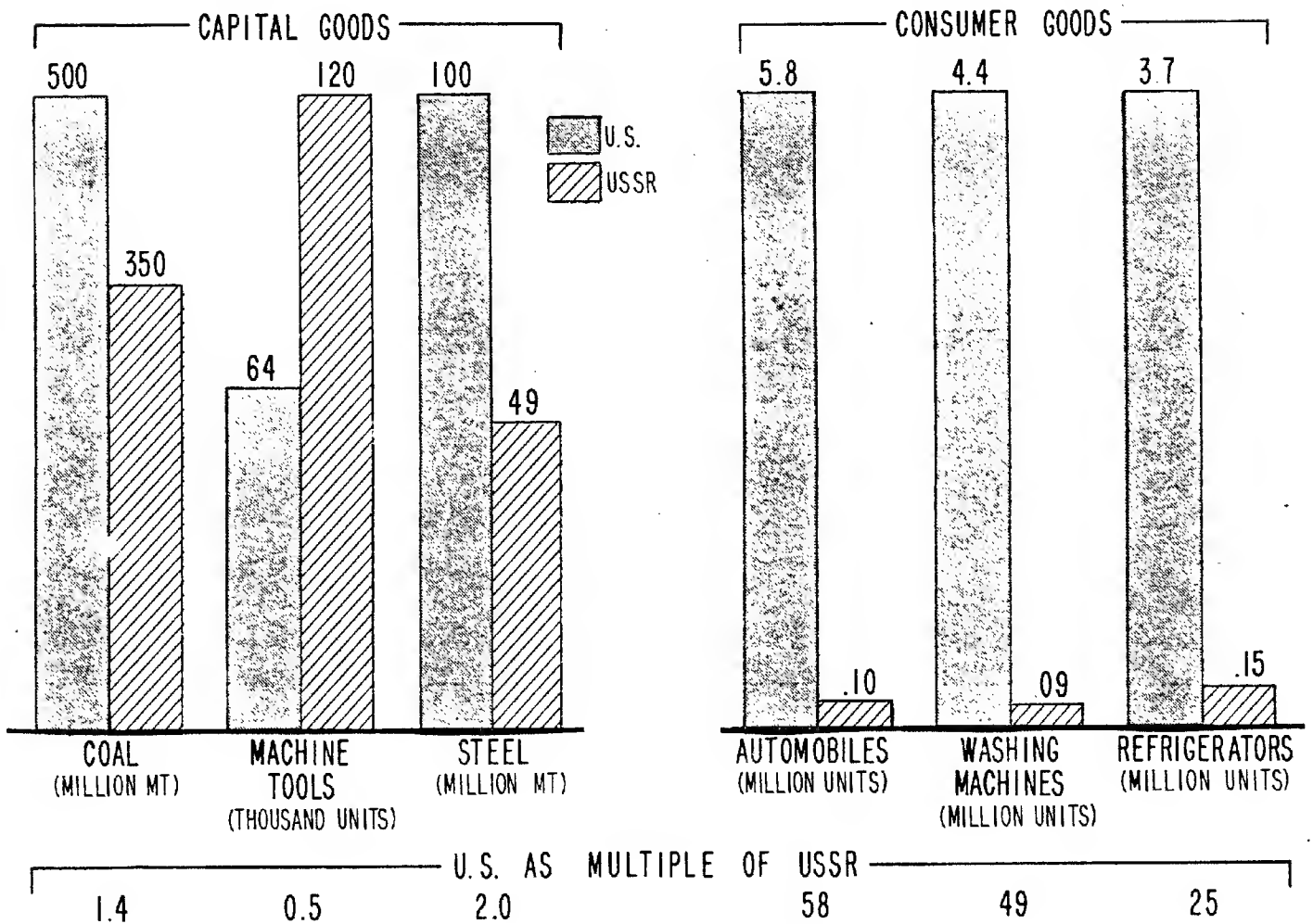


FIG. 1  
PRODUCTION OF SELECTED CAPITAL & CONSUMER GOODS: 1956



Currently Soviet consumption is 45% of their lower GNP as contrasted to 68% for the United States. Soviet per capita consumption is currently about 20% of the U.S. level and the standards of living of the Russian people, in terms of housing per person or in terms of diet, are estimated by the CIA to be little or no better than in 1913. Yet the current rate of increase in the standard of living in the USSR is greater than is the rate of increase in this country. Because of the very low standards of living that prevail there, and because of the relatively rapid growth in the GNP, the Soviet can afford a rate of increase greater than our own. (Figure 4).

These figures reveal not only economic strength, but the social character and political purpose of the Soviet Union. They reflect the persistent determination of the small dominating group to build the force that maintains them in power. They reflect the national concentration of military objectives, that is simultaneously reflected in such internal policies as those that reward individuals essential to this military strength, and those that emphasize the training of scientists and engineers.

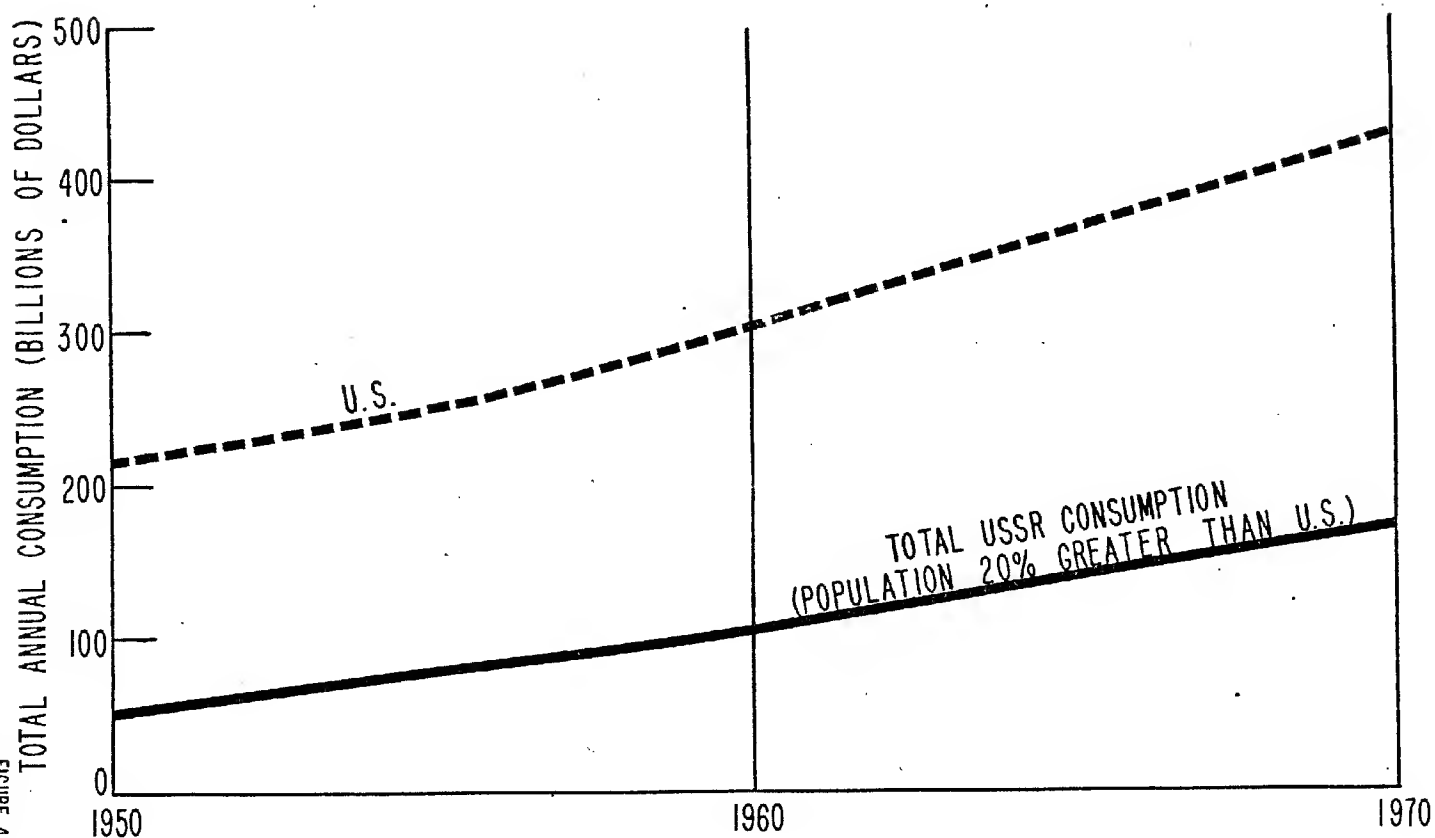
#### DEFENSE EXPENDITURES

While the Soviet has been limiting consumption in order that it might build rapidly a substantial productive capacity geared to defense needs, it has simultaneously devoted a

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SOVIET CONSUMPTION CURRENTLY IS 45% OF THEIR GNP.  
COMPARED TO U.S. CONSUMPTION OF 68% OF U.S. GNP.



relatively high percentage of its annual GNP to defense expenditures.

From 1950 to 1957, annual Soviet defense expenditures have shown a steady and inexorable rate of climb. The accompanying Figure compares annual Soviet expenditures with annual expenditures for military functions by this country. (Figure 5)

A breakdown of the Soviet military budget indicates that the USSR clearly has embraced the new technology involving missiles, nuclear energy and other developments, to a highly significant degree, while at the same time, it retains its great conventional capacity.

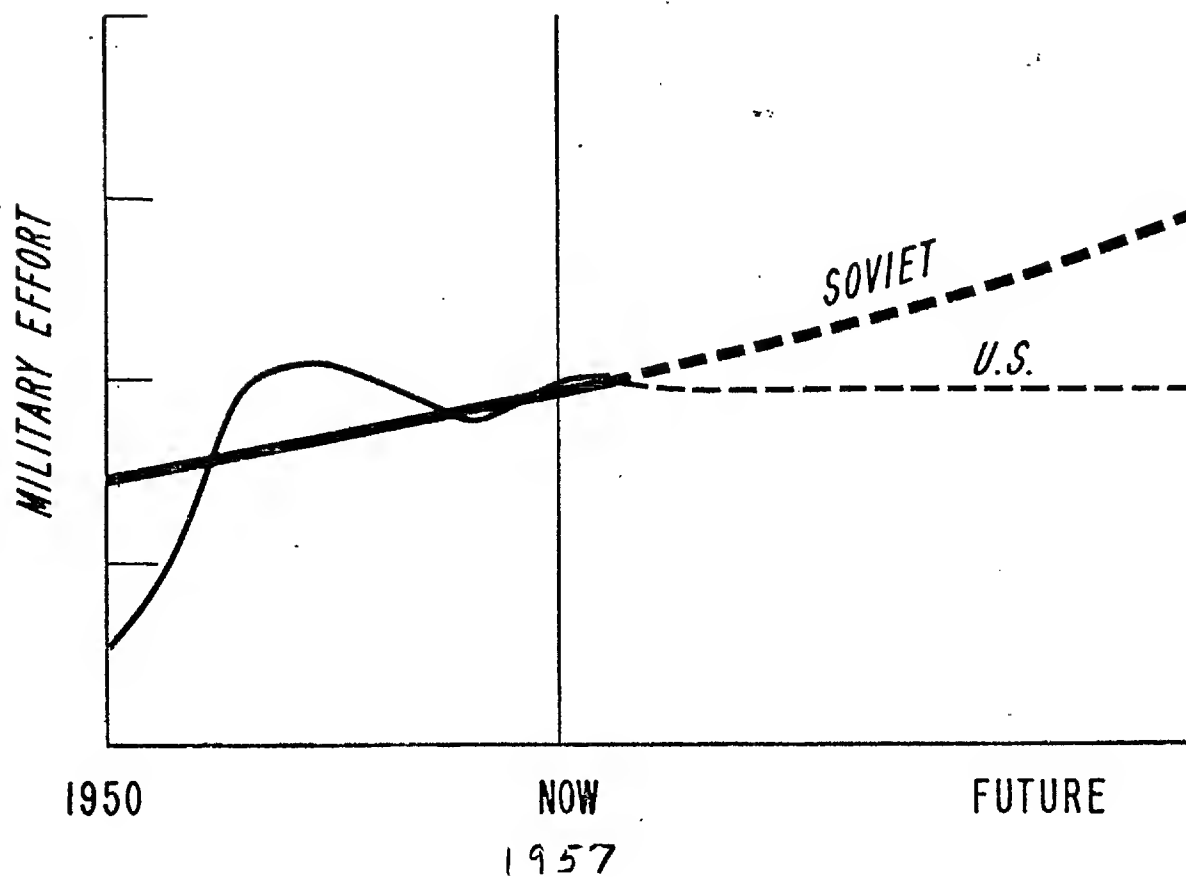
An increasing percentage of the rising Soviet military expenditures has gone into the Air Force, missiles, research and development, and atomic energy.

<u>Year</u>	<u>Percent of Soviet Military Expenditures to Air Force Procurement, Missiles, R&amp;D (incl. Atomic Energy)</u>
1950	17%
1955	24%
1960 (est.)	35%

Whereas the more conventional aspects of military power (military pay and allowances, naval forces, ground forces, warning, communications, etc.) are estimated to rise from 30 to 33 billions of 1955 dollars annually during the period

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## PAST AND PROJECTED RELATIONSHIP BETWEEN U.S. AND U.S.S.R. MILITARY EFFORT



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FIGURE 5  
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1957-1962, the new technology (as defined above) is estimated to increase from  $12\frac{1}{2}$  to almost 18 billion dollars during the same period. (Figure 6)

The steady rate of climb of the Soviet military expenditure was maintained in spite of the Korean War, the death of Stalin, the hydrogen bomb developments, and changes in Soviet leadership. It is estimated that Soviet expenditures in 1970 will be approximately \$65 billion (in U.S. dollars), although they will have the ability to go above this level if they so elect.

#### LABOR FORCE EMPLOYMENT

The final indicator reveals through the deployment of the Soviet labor force, the relatively undeveloped character of the Soviet economy and perhaps, simultaneously, another evidence of Soviet concentration of purpose. The accompanying Figure reveals that comparatively, the Soviet employs:

- a. A significantly lesser proportion of its labor force in the provision of consumer services;
- b. A markedly larger proportion of its labor force in agriculture. (Figure 7)

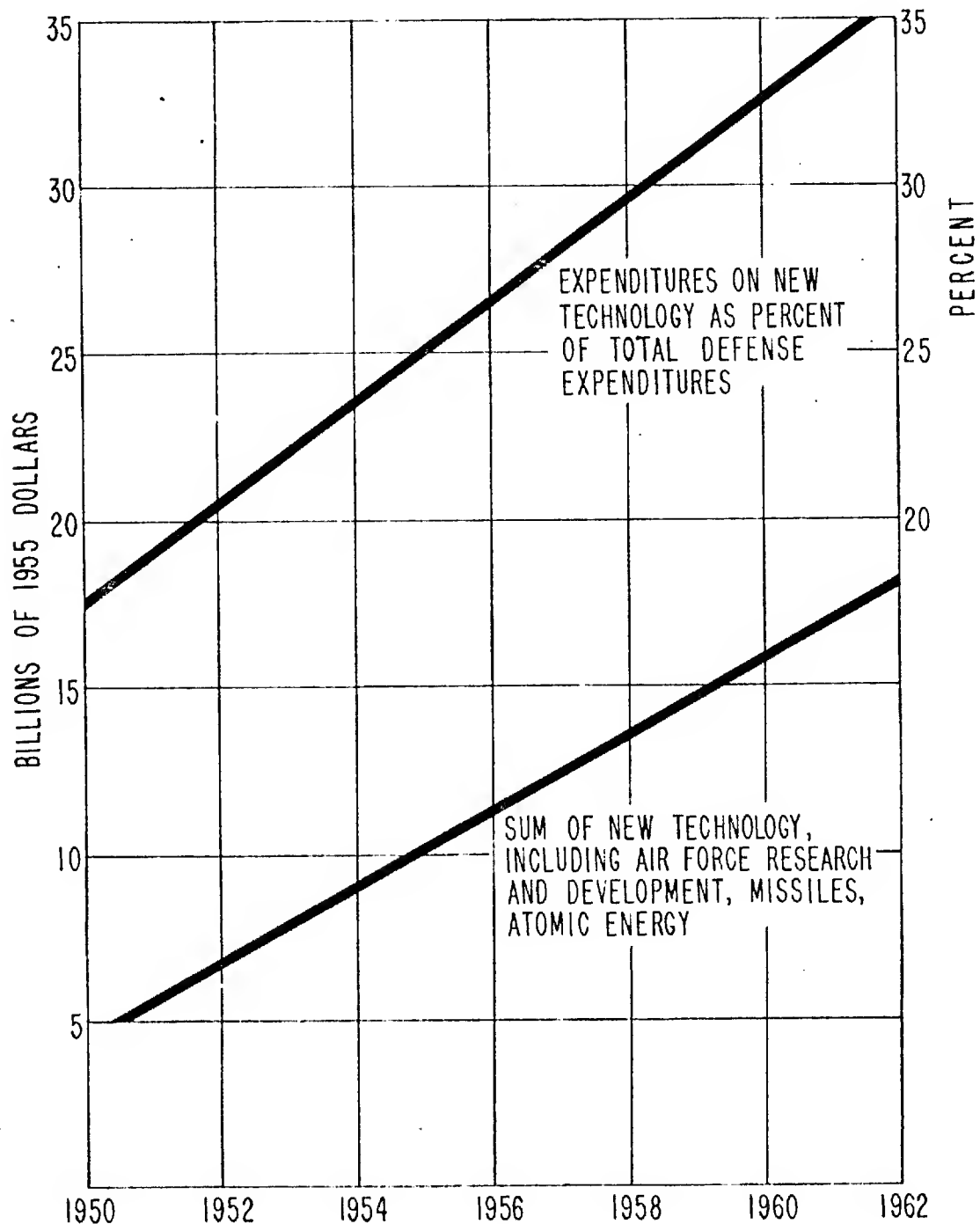
Although there is no assurance that the Soviets will be able to do so, their achievement of a substantial proportion of agricultural objectives would ease the consumer squeeze, solidify the position of present political leadership, and release an increasing proportion of the Russian labor force for basic industrial and military purposes.

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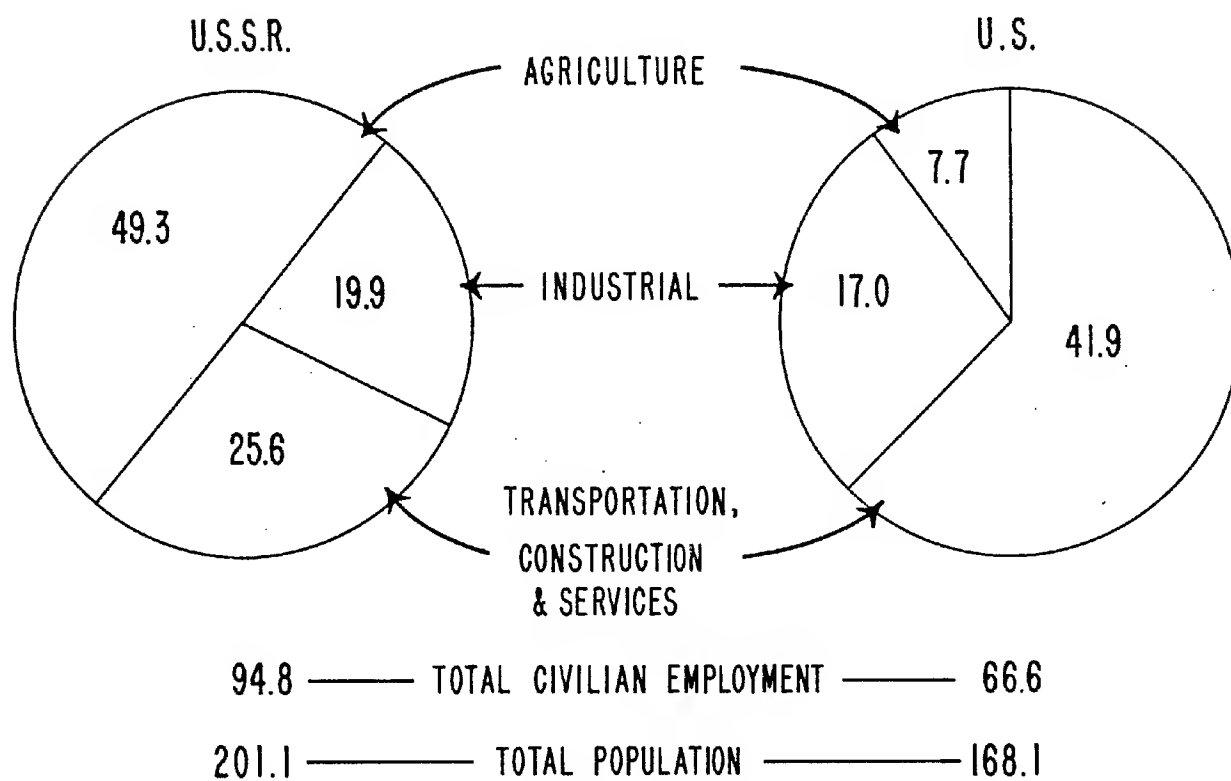
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## SOVIET DEFENSE EXPENDITURES ON NEW TECHNOLOGY

(IN DOLLAR COST OF REPRODUCTION IN U.S.)



U.S.S.R. AND U.S. POPULATION AND EMPLOYMENT  
1 JULY 1956  
(IN MILLIONS)



In addition, the Soviet may be able to add to the civilian labor force through reductions in military manpower.

Of over 1,800,000 university-level scientific and technical personnel, over 1,000,000 have graduated since World War II. The number of graduates employed in science and technical fields in USSR now exceeds those so employed in the United States. By 1962 USSR will have 50% more employed scientific and technical graduates than the U.S. The quality of post-war graduates approaches and sometimes surpasses the quality of U.S. graduates.

#### SUMMARY

Viewed in relation to one another, these four indicators suggest these generalizations:

The Soviet threat is now based on an economy possessing about 40% of the aggregate size of this country's economy, but that economy is growing almost twice as rapidly as is our own and is being deployed in a manner to maximize military strength. If the Soviet threat is measured in terms of annual expenditures for defense and investment purposes, relative to our own, it is formidable indeed. Soviet economic strength has already been sufficient to build an impressive military capability. It is reinforced by a political structure that permits (or forces) single-minded concentration of economic resources on military objectives and promises to be sufficient

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to build a military capability substantially greater than our own before 1970, in the absence of increased effort on our part. In addition, increasing Soviet economic strength makes possible a continuing politico-economic offensive to extend Soviet influence throughout the world.

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## SECTION II

### COSTS AND ECONOMIC IMPLICATIONS

#### COSTS

The estimated cost of the several measures for strengthening our defenses are presented in Appendix C of the Final Report.<sup>1/</sup> These costs were obtained by the Panel staff from a variety of public and private sources. After comparing independent estimates, the Panel staff selected or developed the most realistic approximations possible and reviewed these with public and private authorities who have had experience in costing measures of this sort.

Every effort was made to develop realistic cost data (e.g., estimates for giving SAC early warning against ICBM attacks ranged between \$250 million and \$350 million, but the Panel's studies showed that \$300 million was the most realistic estimate.) Nevertheless, unforeseeable factors, particularly in the years beyond 1960, may result in significantly higher or lower costs than those currently estimated. For example, the estimates are stated in 1957 dollars, and no allowance has been made for inflation.

Detailed cost estimates are made for the next five years only. Expenditures for the completion of some measures will

<sup>1/</sup> Final Report to the President, "Deterrence and Survival in the Nuclear Age", November 7, 1957.

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continue after this five-year period. In addition, operating and maintenance costs for some will continue indefinitely. The cost estimates for the next five years were developed to provide a basis for deciding upon the relative value of each measure in relation to costs and to determine economic implications. These costs are summarized below:

<u>Measures</u>	<u>5 Year Total</u>	<u>Fiscal Years</u>				
		1959	1960	1961	1962	1963
		(Billions of Dollars)				
I. Highest Value Measures (to strengthen deterrent and offensive power)	\$19.09	\$2.87	\$4.56	\$5.04	\$3.65	\$2.97
II. Somewhat Lower Than Highest Value Measures (additional to protect civil population)	25.13	1.86	4.38	6.88	6.01	6.00
TOTAL	\$44.22	\$4.73	\$8.94	\$11.92	\$9.66	\$8.97

Unless economies can be made in defense or non-defense expenditures, these costs would represent additions to federal spending. The Panel stresses the importance of detecting and eliminating unnecessary expenditures wherever possible. However, it has not been in a position to determine where economies can be made in existing budgets. Accordingly, this analysis considers the proposed defense measures as additions to the existing \$38 billion defense budget.

ECONOMIC CAPABILITIES

The proposed measures represent outlays that are not beyond the economic capabilities of this country. The basic problem of providing an adequate defense of the civilian population is not any inability of the economy to stand the strain, however, unpalatable it may be. Instead, it is the problem of creating the will to support the defense and economic measures required.

The nation has the resources, the productive capacity, and the enterprise to out-distance the USSR in production and in defense capability. Within our system of free institutions, we can maintain, if we will, a rising level of living for the American people and provide an adequate defense of the nation. The country has always been ready to shoulder heavy costs for defense, when convinced of the necessity to do so.

That the country could stand a greater defense effort is indicated by its earlier achievements:

a. The proportion of our national output being absorbed in defense today is considerably below that of the Korean War and greatly below that of World War II. Major national security programs are currently absorbing about 10% of our total output, as compared with 14% in 1952 and 41% at the height of World War II. A burden now of 14% of GNP would represent a defense program of about \$60 billion.

b. The proportion of GNP being absorbed in all government activities (federal, state, and local) is also lower now than

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in 1952 or 1944. Today 20% of GNP represents goods and services purchased by all units of government, compared with about 21% in 1952 and 46% in 1944. Non-defense purchases are now about 9% of our GNP. This is more than double the figure for 1944, but it has been rising fairly steadily since the end of World War II largely as a result of the expansion of state and local expenditures.

b. Today consumers are spending 11% more per capita in real terms than in 1952, and 36% more than in 1944. If the public werewilling to accept 1952 levels of consumption, \$26 billion more could be devoted to defense. If it were to cut back to 1944 consumption levels, \$60 billion more could be spent on defense.

Assuming gross national product increases  $3\frac{1}{2}\%$  per year, the share of total production going for defense under the proposed measures would be substantially less than during World War II on during the Korean War. In the peak year, Fiscal 1961, total Department of Defense expenditures would amount to 9.2% of gross national product if the measures of highest value were added to existing programs and 10.4% if measures having less than the highest value were also undertaken. These shares compare with an estimated 8.6% in the current Fiscal Year.<sup>2/</sup> It should not prove impossibly difficult

<sup>2/</sup> The calculations in this paragraph assume that DOD spending in fiscal year 1958 will amount to \$38 billion, as estimated in the Mid-Year Budget Review. To the extent that actual expenditures will exceed this estimate, the percentages will be increased but the correction should be relatively small.

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to shift the make-up of national output to raise the share going into Defense from its present 8.6% to 9.2% or 10.4% in two to three years.

In fact, with continued economic growth, this could be done while at the same time permitting increases in private expenditures for consumption and investment. A  $3\frac{1}{2}\%$  growth rate means that the nation's total output would increase by an average of more than \$16 billion per annum during the next five years. The addition of measures of highest value to the existing level of Defense spending would take less than one fourth of the increase in gross national production in the next five years. If the measures of less than highest value were also undertaken, about half the increase in gross national product would still be available to the private economy.

Consequently, the economic impact of these programs would not require an absolute reduction in private consumption or investment of the sort that was required during World War II. What would be required would be measures to slow down the rate of increase in private demand, to permit a relatively moderate shift in the share of total production from the private economy into defense production without inflation.

#### FINANCIAL CAPABILITIES

The financial problems of undertaking such a shift of resources cannot be set forth with great accuracy, in large

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part because the nation's financial capabilities cannot be reliably forecast. But approximations can be reached by making projections based on reasonable assumptions regarding the future performance of the economy. Since there are no official projections, we have made illustrative calculations of our national output and of the federal budget picture through Fiscal Year 1970 on the basis of six assumptions:

a. Uninterrupted high employment (meaning no war with attendant over-employment, and no depression with serious and prolonged unemployment);

b. A rate of growth of 3.5% per annum in GNP (this rate of growth was 3.0% for 1926-56, and 4.0% for 1946-56);

c. No further inflation. (The figures are in Fiscal Year 1957 dollars);<sup>3/</sup>

d. An increase in receipts at a somewhat faster rate than GNP (since the income taxes which contribute almost 85 per cent of total federal receipts increase more than proportionately to income);

e. An increase in federal expenditures other than those by DOD and the Military Mutual Security Program at the rate of 3.5 per cent per year, (that is; at the same rate as GNP);

<sup>3/</sup> Although the calculations for years beginning with fiscal year 1958 were made in fiscal year 1957 prices, this does not imply that prices will remain unchanged. However, it is best to assume stable prices for planning purposes.

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f. No increase in expenditures by DOD and the Military Mutual Security Program above the levels projected in the Mid-year Budget Review for Fiscal Year 1958 (to show how much room would remain for raising defense expenditures after civilian needs are satisfied).

The results of these calculations are summarized in Table I and Figure 1. At the assumed growth rate, the Gross National Product will rise from \$42 billion in the current Fiscal Year to \$668 billion in 1970. Receipts would grow from \$73.5 billion to \$114.9 billion, and expenditures would grow from \$72.0 billion to \$88.2 billion. As a result, assuming no change in tax rates, the surplus would rise from \$1.6 billion to \$26.7 billion.<sup>4/</sup>

The proposed defense measures would have the effects shown in Table II on the surplus for the first five years.

<sup>4/</sup> Unless this surplus were offset by higher expenditures or lower taxes, it would undoubtedly create a deficiency in aggregate demand relative to our productive capacity.

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TABLE IGROSS NATIONAL PRODUCT, AND FEDERAL RECEIPTS,  
EXPENDITURES AND SURPLUSACTUAL, FISCAL YEARS 1950-57; PROJECTED,  
FISCAL YEARS 1958-70  
(Billions of Dollars)

Fiscal Year	Gross National Product	F E D E R A L B U D G E T		
		Receipts	Expenditures	Surplus or Deficit
<u>Actual</u>				
1950	263	36.5	39.6	-3.1
1951	312	47.6	44.1	✓3.5
1952	337	61.4	65.4	-4.0
1953	358	64.8	74.3	-9.4
1954	360	64.7	67.8	-3.1
1955	374	60.4	64.6	-4.2
1956	404	68.2	66.5	✓1.6
1957	427	71.0	69.4	✓1.6
<u>Projected</u> <sup>a/</sup>				
1958	442	73.5	72.0	1.5
1959	457	76.1	73.1	3.0
1960	473	79.0	74.3	4.7
1961	490	82.1	75.5	6.6
1962	507	85.2	76.7	8.5
1963	525	88.5	78.0	10.5
1964	543	91.8	79.3	12.5
1965	562	95.3	80.6	14.7
1966	582	98.9	82.1	16.8
1967	602	102.6	83.5	19.1
1968	623	106.5	85.1	21.4
1969	645	110.6	86.6	24.0
1970	668	114.9	88.2	26.7

a/ Figures for Fiscal Year 1958 are from the Mid-Year Review of the 1958 Federal Budget. For succeeding years GNP and Federal non-defense expenditures are assumed to increase at an annual rate of 3.5 percent; defense expenditures -- DOD and mutual military assistance--are assumed to remain at \$38 billion and \$2.2 billion, respectively; and federal receipts are assumed to rise somewhat more than proportionately to GNP. Projected figures are stated in terms of Fiscal Year 1957 prices.

NOTE: Figures are rounded and will not necessarily add to total.

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SURPLUS OR DEFECIT IN FEDERAL RECEIPTS & EXPENDITURES  
FISCAL YEARS 1954 - 1963

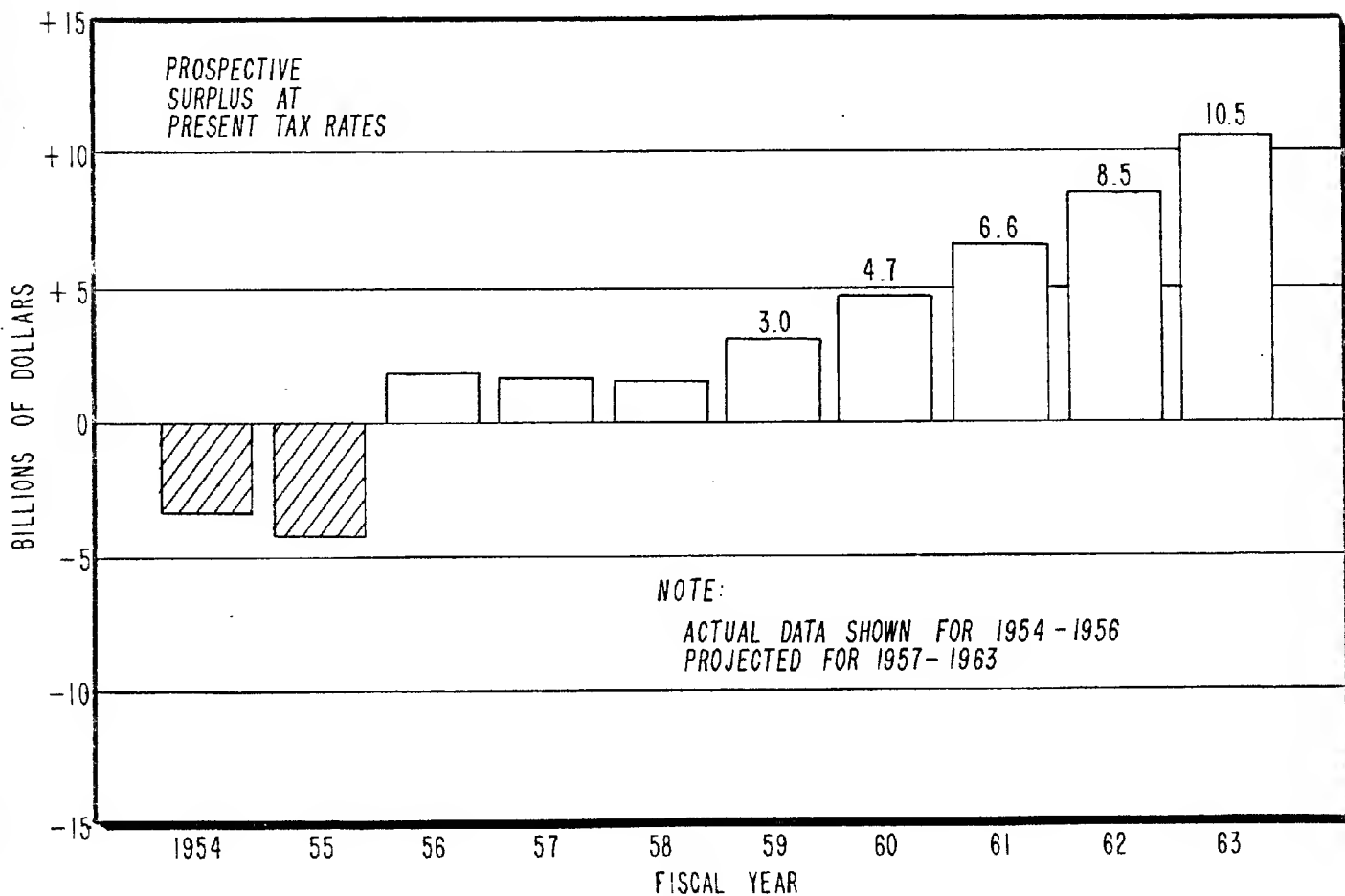


TABLE II

PROJECTED FEDERAL RECEIPTS AND EXPENDITURES  
(Fiscal Years 1959 through 1963)  
(Billions of Dollars)

	5-Year Total	Fiscal Years				
		1959	1960	1961	1962	1963
Gross National Product <sup>a/</sup>		457.0	473.0	490.0	507.0	525.0
Federal Receipts <sup>b/</sup> (present taxes)		76.1	79.0	82.1	85.2	88.5
Federal Expenditures <sup>c/</sup>		73.1	74.3	75.5	76.7	78.0
Surplus		3.0	4.7	6.6	8.5	10.5
<hr/>						
I. Highest-Value Measures: (to strengthen deterrent and offensive power)	19.09	2.87	4.56	5.04	3.65	2.97
Surplus		.13	.14	1.56	4.85	7.53
II. Somewhat Lower Than Highest-Value Measures: (additional, to protect civil population)	25.13	1.86	4.38	6.88	6.01	6.00
<hr/>						
Total Program	44.22	4.73	8.94	11.92	9.66	8.97
Surplus and/or Deficit		-1.73	-4.24	-5.32	-1.16	/1.53

a/ Estimates based on uninterrupted growth in GNP at  $3\frac{1}{2}\%$  per annum with no inflation.

b/ Receipts from existing taxes rise faster than GNP because of income tax rates.

c/ Defense expenditures of \$38 billion annually; non-defense expenditures increasing at  $3\frac{1}{2}\%$  per annum.

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These calculations indicate that with continued high employment, the measures of highest value could be financed within a balanced budget in all years at present tax rates, though the margin would be relatively small in the first two years. On the other hand, if the measures of less than highest value were also undertaken, the budget would be unbalanced through Fiscal Year 1962 unless taxes were increased.

#### ECONOMIC IMPLICATIONS

The measures of highest value would not have a major impact on the economy. Sufficient resources, both in men and materials, would be available to carry out the program. The Federal Budget would show a small surplus in all years, assuming continuation of high employment. To the extent that economies could be achieved elsewhere in the budget, the projected surplus would be larger. No increase in tax rates would be required, but tax reductions would have to be postponed. These measures would require an increase in the statutory debt limit as a precaution against the possibility that revenues might initially fall below the estimates based on uninterrupted high employment. Under conditions of high employment, the program would exert an inflationary influence, requiring continuation of monetary and credit restrictions.

If present recessionary tendencies continue, receipts in Fiscal Years 1959 and 1960 will fall below those projected in Table I. Under these circumstances, the increase in federal

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expenditures would help to sustain production and employment and to raise tax receipts above the level they might otherwise reach. Even if the budget should remain unbalanced, it would not be appropriate to increase taxes since the deficit would be an indication that there are unused resources in the economy and an attempt to balance the budget would aggravate the economic readjustment.

The measures having highest value and those having less than highest value represent substantially greater expenditures and have larger economic implications. These measures would require expenditures that could not be financed out of existing taxes. A tax increase would be required, and it would be necessary to lift the debt limit. The combined program would call for additional private investment, especially to meet the heavy requirements for steel and cement for the shelter program. A revival of accelerated amortization might be necessary to stimulate required investment in these areas. In addition, some slowdown of highway construction and other postponable public works may be necessary.

The announcement of such a program would be a substantial stimulus to the economy and could have an inflationary influence. Although we have not prepared a supply and demand model, it seems clear that unless the economy suffers a fairly serious recession, steps would need to be taken to avoid a substantial rise in the general price level. Because the major

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problem would be to restrain consumer demand, increases in personal income tax rates in the lower and middle brackets, or increases in consumption taxes would be the most effective anti-inflation weapons. In addition, Federal Reserve policies of restraint should be continued or intensified and non-defense expenditures should be held back.

With sufficient tax increases and a vigorous monetary and credit policy, it might be possible to avoid the use of direct controls on prices and wages. However, some allocation controls would probably be necessary to channel scarce materials into needed defense production.

One possibility not to be overlooked is that a stepped-up defense program of this sort might have the effect of raising productivity for the economy as a whole, thus causing Gross National Product to rise more rapidly than  $3\frac{1}{2}\%$  per year. This in turn would permit a still larger increase in public spending or private non-defense consumption and investment.

#### RESOURCE REQUIREMENTS

In addition to the feasibility of the programs in terms of aggregate costs and expenditures, as discussed above, there may be problems connected with individual materials, industries, and manpower.

For the highest value measures which have a five-year total cost of about \$19 billion and peak year costs of \$5 billion, there do not appear to be any bottlenecks or material

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shortages which would impede the programs; nor would controls of any type be required. There is sufficient existing aluminum and steel capacity and capacity in the airplane and missile industries to sustain the programs; probably some strain would be placed on the electronics industry, but it does not appear to be severe. In short, production capability in the relevant industries is adequate; but some slippages may occur in the research and development activities which are subsumed in the programs, since no one can predict exactly when technological innovations will be realized; (e.g., the development of solid fuel for POLARIS). If the missile and aircraft programs move in the direction of greater use of beryllium and titanium, some shortages may occur in production capacity for both; furthermore, there are metallurgical problems still to be solved in rolling, drawing, and extruding beryllium.

Addition of a program for fallout shelters adds a new dimension to the problem. A nation-wide program for fallout shelters has been recommended with a six year-cost of \$25.5 billion. The cost during the next five years is estimated to be \$22.5 billion with peak year costs of \$6 billion. There are three major inputs for such a program; reinforcing steel, cement, and construction labor.

A number of shelter proposals have been evaluated recently.<sup>5/</sup> Five programs were evaluated by the Special Committee on Shelter

<sup>5/</sup> Cf. Report to the National Security Council by the Special Committee on Shelter Programs, July 1, 1957 (TOP SECRET); also the evaluation of those programs by the Council of Economic Advisers, "Economic Implications of Alternative Shelter Programs", August 14, 1957 (TOP SECRET).

Programs; of these, Program I for fallout shelters only, corresponds to the proposals recommended by this Panel. There is a small difference in the total costs of the two programs but it appears to be accounted for by the fact that the Panel's program extends over 6 years and the Special Committee's over 8 years. The coverage of population is the same.

For this program of fallout shelters the Panel (Appendix B, Final Report) estimates that in the peak year of activity the following materials would be required: .3 million tons of reinforcing steel; 50 million barrels of cement. In evaluating the fallout shelter program of the Special Committee, the Council of Economic Advisers estimated requirements in the peak year of 2.6 million tons of steel and 44.7 million barrels of cement. We will use the higher figures.

Can the economy supply these amounts easily? At present the annual capacity for reinforcing steel is about 3 million tons. The Iron and Steel Division, BDSA, has estimated, conservatively, that by altering the product mix over 10 million tons could be produced "tomorrow" by utilizing 8 to 12-inch mills which normally produce larger bars or rounds. This conversion to reinforcing steel would, however, substantially alter the product mix, and in order to divert sufficient steel to the shelter program an allocation system similar to that of the Korean War would probably be required.

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Because the highway program is itself such a large consumer of steel, cement, and construction labor -- the three ingredients most needed for a shelter program -- it would be most appropriate to consider the advisability of deferring the highway program and diverting the materials to shelters. The materials and labor required for a peak year of the highway program would permit building fallout shelters for 22,000,000 people.

By 1961 cement capacity will be over 400 million barrels. Thus, the shelter program would require about 12% of total capacity. But new capacity can be obtained by capital expenditures of \$5 per bbl. for additions to existing plant or \$10-14 per bbl. for new plants. For fairly modest investments, substantial new capacity can be obtained.

### CONCLUSIONS

The conclusions which emerge for these materials are as follows: (1) in all probability new capacity to meet fallout shelter requirements can be obtained by reinstituting accelerated amortization for steel and cement plants, plus guaranteed market for these products which would extend for 5 or 6 years; (2) initially, some allocation controls on steel might be required but probably need not extend beyond 3 years; (3) a deferral of the highway program would make the materials problem almost disappear.

Construction labor requirements in the peak year would

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amount to 250,000-300,000 man-years. This is lower than the estimate of the Council of Economic Advisers which uses 480,000 man-years. The construction of shelters would become a repetitive operation so that with a continuous program, productivity in the industry should rise very rapidly through the "learning curve" effects. The construction industry has already demonstrated its capacity to expand rapidly; the seasonal swing in employment is itself about 20%. At the maximum, employment in construction would need to be expanded by 20%.

It has all along been assumed that the current technology on shelter construction, with its demands on the conventional materials of steel and cement, will continue to be relevant. However, several points might be mentioned: (1) A shelter (corrugated steel arch), which was expected to fail at 30 psi, appears to have withstood about 100 psi at a Nevada test. This suggests that new techniques (domes, tubes, etc.) and new materials (plastics, corrugated steel, cement and mesh, etc.) may greatly change the character of shelter construction and diminish demands for steel, concrete, and manpower a great deal. (2) Even in current technology there is obviously some trade-off between depth in the ground and steel and cement requirements. It should be noted that stopping costs (i.e., hollowing out tunnels) in mines is about \$2-3 per cubic foot. This makes for very cheap construction when combined

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with normal timbering. (3) A survey now under way for the RAND Corporation strongly suggests the availability of several hundred million square feet of usable space in existing and abandoned mines, caves, etc. For example, a huge salt mine below Detroit could be easily converted to shelters as could mines around Pittsburgh. These also point to cheap shelter.

In short, it would be unwise to foreclose a shelter program based purely on steel-cement feasibility tests. The problem is much more complex -- and the possibilities much more optimistic than that.

There do not appear to be any other bottlenecks, beyond those already discussed, which would delay or deter the total program recommended by the Panel.

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guidelines, and assumptions essential to civilian defense planning and mobilization measures. Insofar as possible these should be put in a form for guidance of federal, state, and local governments, and private organizations. Basic assumptions would be reviewed by the NSC and approved by the President. The policies would include formulation of the character and scope of advance measures that are practical and desirable to undertake to facilitate continuity of government and civilian services.

#### CITIZEN PARTICIPATION

If warning of an actual attack took place today, all evidence indicates that few citizens would pay attention. Moreover, they would have little knowledge and understanding of what to do even if they did take seriously the warning.

People are apathetic about civilian defense. Most have at best only vague notions about the nature of the threat. Those who do attend to civil defense directives are confused by the conflicting information provided them and they are unconditioned to the experience of physical and emotional participation in the survival behavior suggested.

#### Recommendations

a. Prepare realistic guidelines in regard to how much can be expected of the ordinary citizen with due recognition to the manner in which people will react and conduct themselves in time of disaster.

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b. Develop a minimum of measures which require understanding and participation of masses of people.

c. Emphasize to the public what to expect and who does what. Tag every person with a job, either to report to a place or to keep out of the way.

d. Establish a division within the National Emergency Office charged with the interpretation to the American people of the nature of the threat and essentiality of whatever official measures are undertaken.

e. Establish a realistic, survival behavior training program which would remain active as long as survival behavior competence is deemed necessary and make unanimous citizen participation in these exercises mandatory. The life of the trained citizen must not be jeopardized by the confused and disorganized behavior of those who decline to participate in the training exercises.

#### PERSONNEL AND FUNDS

To carry out whatever civilian defense and mobilization program may be adopted, additional personnel and funds will be required.

The expectation that federal departments and agencies would perform functions delegated to them without additional funds has been illusionary.

The present personnel of ODM and FCDA will form the nucleus for the consolidated National Emergency Office and

essential staff for the departments and agencies, but additional, and in some cases higher level, personnel is urgent.

The failure of adequate planning and operations at the state and local level can be attributed directly to the wishful thinking of expecting local governments already beset with financial difficulties to provide new money for what they feel to be an element of national defense. (They are not required to pay the bill for National Guard or local reserve forces.)

Recommendations

a. Charge the National Emergency Office with coordination of the development of a comprehensive work program and budget, covering all federal agencies, even though departmental estimates are included as items in the appropriation requests of the departments. It is imperative that the entire plan be considered and financed as a whole.

b. Adopt the principle that the federal government will finance two thirds or three quarters of approved administrative expenses required for state and local civilian defense planning and administration. Cities and states would submit general plans of operation, work programs and budgets to NEO, which should be authorized to allocate (or withhold) funds for approved plans. Through its power to withhold as well as grant funds and the use of inspection, standards could be maintained. The NEO should be able to work through other federal agencies in fulfilling this purpose.

A PART OF THE WHOLE

Civil defense and mobilization is but one element in a national program. The amount of effort and funds to be allocated and the extent to which American citizens are inveighed with a sense of personal alarm, depends on assessment of the entire gamut of national and international security and political considerations.

For example, do we not need a careful assessment of the difficulties and consequences of sensitizing our entire population to the nature of the threat, and of mobilization for preservation of life and continuity of public authority and services? Should not these difficulties be weighed with the calculated risk of doing what is manageable without alarm while concentrating on non-military and military measures to prevent attack?

How could the nation embark on an "all-out" civil defense program involving expenditures of large sums of money for shelters and equipment unless we were prepared to support such measures on the part of our allies? Would not an ethnocentric preoccupation of this kind debilitate our dynamism, enervate our economy, and paralyze our posture in world leadership?

In view of the convulsive consequences of a thermo-nuclear attack and the limited measures which are available in any event to cope with its aftermath, might not we best concentrate most of our energies on measures calculated to

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unite our allies in ways which will weaken the enemy and deter aggression, on the one hand, and develop, on the other, a world climate of values and forces which will ultimately dissolve the impulse to attack?

In this connection, the potentialities of economic and technical cooperation and of informational, psychological and ideological programs are only partially and as yet clumsily exploited. What we do in civil defense, as well as on the military front, needs to be balanced and in tune with what we do in capitalizing on the great potential of non-military, international opportunities.

The issue will not be won on the basis of statistics of GNP or the capabilities of weapons or the potential in reducing loss of life by going underground. Rather we shall prevent disaster only if we possess the essential moral and spiritual dynamics, the will to engage in sacrifice for high purpose, and the courage that comes from facing annihilation knowing that principle is more important than life itself.

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SECTION V

GROWTH OF DEBT IN A GROWING ECONOMY

Several studies recently have drawn attention to the fact that debt (measured in various ways) tends to grow with the economy as represented by Gross National Product, national income, or the money supply. Among these studies are: an article on "Relationships Between Debt and GNP," by Paul W. McCracken, in the Michigan Business Review (November 1956, pp. 12-13) and one on "The Growth of Debt and Money in the United States, 1800-1950: A Suggested Interpretation," by John G. Gurley and E. S. Shaw, in the Review of Economics and Statistics (August 1957, pp. 250-262). An unpublished paper on Debt and the Money Supply by P. S. Anderson of the Boston Federal Reserve Bank may also be noted.

McCRACKEN PAPER

McCracken shows that the ratio of net debt to GNP for years of reasonably good business conditions between 1916 to 1955 has been fairly stable, ranging between 1.7 and 1.9. The figures on net debt exclude securities held by corporate subsidiaries, government trust funds, and government agencies. The following table appears in his paper:

TABLE I  
GROSS NATIONAL PRODUCT AND TOTAL NET DEBT  
(in billions)

Year (1)	GNP (2)	Debt (3)	$\frac{\text{Debt}}{\text{GNP}}$ (4)
1916	\$ 49	\$ 82	1.67
1925	91	163	1.79
1929	104	191	1.84
1940	101	190	1.88
1945	214	406	1.90
1950	285	491	1.72
1955	387	658	1.70

Source: Col. 2 - U.S. Department of Commerce, except 1916 and 1925 from Paul W. McCracken, "Cyclical Implications of War-time Liquid Asset Accumulations." (Harvard, Doctoral Thesis, 1948); Col. 3 - U. S. Department of Commerce

McCracken also shows that the annual increase in debt in the post-war period has averaged about nine per cent of GNP. The study concludes that by 1965, when GNP should reach about \$565 billion, total public and private debt may be expected to be about \$430 billion higher than in 1955. In other words, total net debt will rise from \$655 in 1955 to something over \$1,000 billion. It is worth noting that the net debt increase during 1956 (\$28 billion) is consistent with McCracken's projection.

The rationale behind this projection is as follows: Taken all together, households, businesses, and governments in this country tend to spend about nine-tenths of their receipts. Some spend more and some spend less (business usually spends more,



households usually spend less, and governments sometimes spend more and sometimes spend less), but for the economy as a whole, about one-tenth of national income is not spent by those who receive it.

Debt is the vehicle that puts the surplus income into the hands of spenders. Savings for the most part flow into savings banks and other financial institutions and are then invested in the debt of spending units. In this way savings add to the demand for goods and services produced by the economy. The growth of debt is therefore the normal corollary of savings and growth.

McCracken also explores the potential sources of new debt - who will be the debtors. He shows how this new debt would be distributed if it should be held proportionately by the private economy, the federal government, and state and local governments. He also shows what the distribution might be like if the federal government held its debt stable and let the private sector and state and local governments carry the burden. In the former illustration he shows an increase of about 50% in private and about 50% in public debts. In the latter illustration he shows private debt increasing by about 90% and public debt remaining about the same.

The McCracken paper, focusing on (1) the needed increase in total debt to sustain economic growth and (2) the way the burden of the additional debt may be distributed, raises questions about the feasibility of holding public debt in a growing economy.

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**TOP SECRET**GURLEY-SHAW STUDY

The Gurley-Shaw study uses data from a different source and reaches similar conclusions about the relation between debt and Gross National Product. With data from Raymond W. Goldsmith's study of savings for the National Bureau of Economic Research, the Gurley-Shaw study focuses attention on all primary securities - corporate stocks as well as the various forms of debt - for the period 1900-1949. As the following table shows, most of the time the ratio of primary securities to GNP has been between 1.9 and 2.0 - the periods around World War I and the Great Depression are the exceptions.

The study also presents some fragmentary data for the Nineteenth Century. This shows the debt-national income ratio rising rapidly from 1800 to about 1880; thereafter the ratio tends to level off except in periods of boom and depression. (The paper shows, for example, that the debt-national income ratios for 1880, 1890, and 1900 are about the same as for 1945, 1949, and 1952.)

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TABLE II

CUMULATED PRIMARY SECURITY ISSUES  
AND GNP, BY SUB-PERIODS <sup>a/</sup>1900-49  
 (Annual averages; in \$ billion; ratios)

Period	Cumulated Primary Issues	GNP	Ratio of Securities to GNP
1900-04	42.3	20.9	2.02
1905-08	53.1	27.5	1.93
1909-11	62.7	32.7	1.92
1912-14	72.4	36.4	1.99
1915-21	114.8	68.4	1.68
1922-24	155.3	81.4	1.91
1925-27	181.8	94.2	1.93
1928-32	212.4	85.4	2.49
1933-38	216.7	75.4	2.88
1939-46	337.7	162.9	2.07
1947-49	499.5	249.0	2.01

a/ Primary securities include all government securities, corporate stocks and bonds, mortgages, consumer debt, other short-term loans of financial intermediaries, and a small amount of other debt. The initial total of primary securities for 1900 is from Raymond W. Goldsmith, The Share of Financial Intermediaries in National Wealth and National Assets, 1900-1949 (National Bureau of Economic Research, 1954). Occasional Paper 42, pp. 79, 117. The net issues of primary securities were computed by us for a larger work now in preparation at the Brookings Institution. The basic source, however, is Goldsmith's A Study of Saving in the United States.

The phenomenon of a rising ratio of debt to income followed by a more or less stable ratio is explained as follows: In the early stages of a nation's economic growth income is too low to permit saving and debt accumulation, but as income grows savings appear and debt begins to grow. In the earliest years when total debt is low, the rate of growth of debt is high - and the ratio of debt to income rises. The rise in the debt-income ratio continues until the total debt is so large that the rate of debt growth is similar to the rate of income growth. For this country, this means that debt had to grow faster than income until about 1880 - thereafter, both have tended to grow at about the same rate, which has kept the debt-income ratio fairly constant. The important deviation from the stable debt-income ratio occurred during the 1930's when income shrank drastically and debt obligations did not shrink proportionately. This episode showed that income can still drop fast and far but that total debt declines slowly.

#### ANDERSON STUDY

The study by P. S. Anderson uses the net debt data of the Department of Commerce and reaches about the same conclusion. He notes that the stability of the ratio between debt and GNP has occurred irrespective of the division of total debt between federal debt and all other debts. He also notes that the ratio of equity securities to debt securities has tended to remain about constant for most of the period 1916-55.

~~TOP SECRET~~The Yearly Data 1916-1956

The data shown in Table IV and Figure 1 bear out the conclusions of these studies. Table IV gives total public and private debt (excluding only corporate debt owed to parent or subsidiary corporations). The basic source is the Department of Commerce and, for some pre-1929 data, Raymond W. Goldsmith, A Study of Savings in the United States.

The average annual ratios of debt to GNP for the period 1916-1956 are as follows:

Total Public and Private Debt	2.00
Total Private Debt	1.28
Total Public Debt	0.72
Federal	0.57
State and Local	0.15

For the 40-year period total debt has tended to be about twice the level of GNP and public debt has tended to account for about one-third and private debt for about two-thirds of the total.

If the depression period (1930-39) is excluded, the average ratios are lower - as shown below - and as shown in Figure 1 they are more stable:

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RATIOS OF PUBLIC AND PRIVATE DEBT TO GROSS NATIONAL PRODUCT (1900, 1919-56)

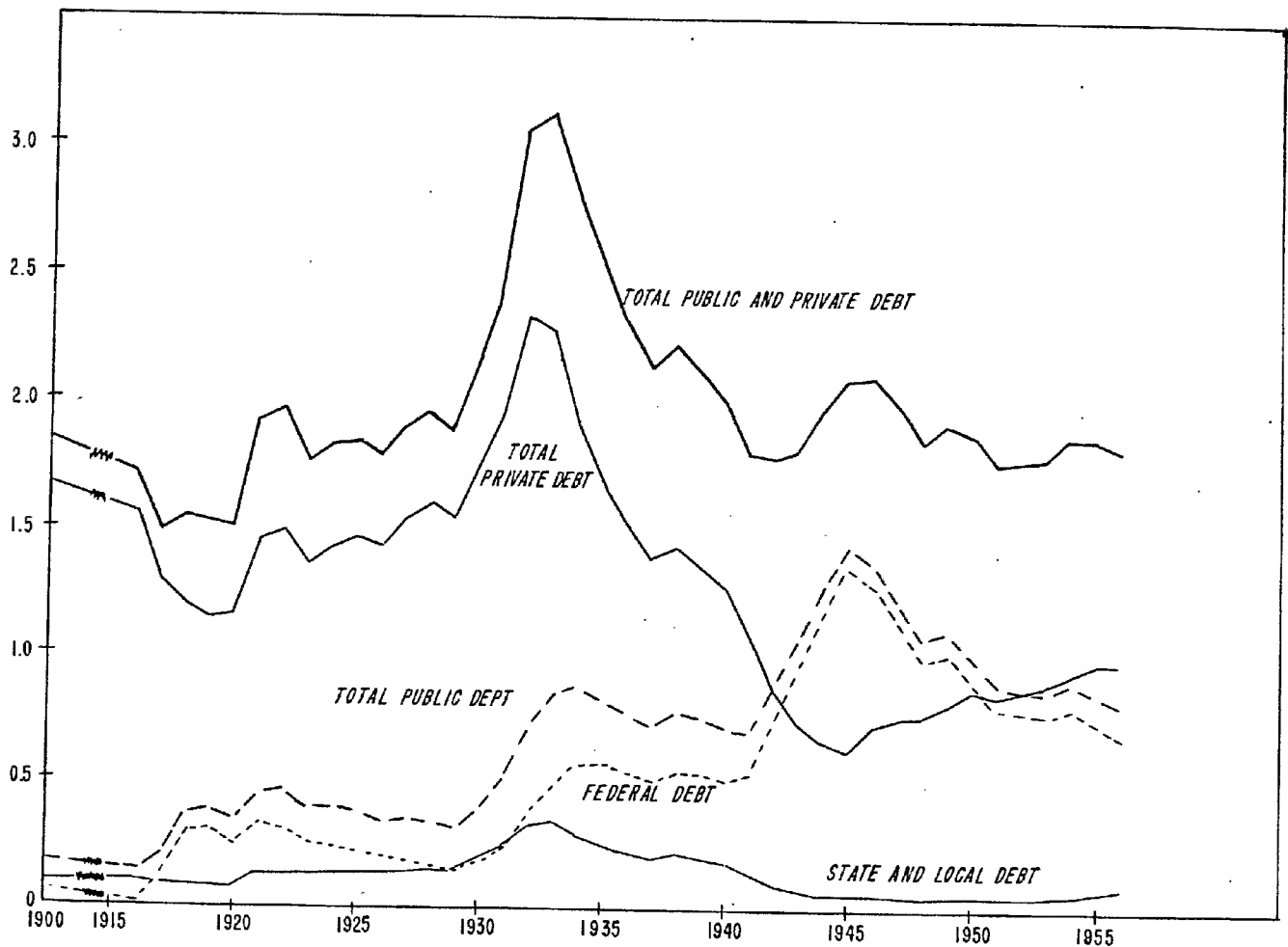


FIGURE 1  
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TABLE III

	<u>1916-1929</u> <u>Prosperity and</u> <u>World War</u>	<u>1940-56</u> <u>Prosperity and</u> <u>World War</u>	<u>1930-1939</u> <u>Depression</u>
Total Public and Private Debt	1.76	1.90	2.49
Total Private Debt	1.41	0.88	1.77
Total Public Debt	0.35	1.02	0.73
Federal	0.22	0.91	0.47
State and Local	0.13	0.10	0.26

Figure 2, which is based on the data in Table IV, shows on a ratio scale that the rate of change in GNP and total debt have been similar over the past 40 years. The primary divergences come in periods of declining income, when income falls more rapidly than total debt. The downward rigidity of debt arises from the fact that most debt obligations run for longer than a year or two; and also some new borrowing occurs even in the deepest depression. This downward rigidity of debt is what makes it potentially dangerous for borrowers - a shrinkage in income can seldom be matched by a shrinkage in debt obligations. And the more that the burden of debt is concentrated on a single sector of the economy, the more vulnerable that sector may be to any shrinkage in income.

Historically, the long-run burden of debt has been shared by government and the private economy. At various times private borrowers have curtailed their rate of borrowing and at times government has curtailed its borrowing - and most of

TABLE IV

GROSS NATIONAL PRODUCT, PUBLIC DEBT, AND PRIVATE DEBT, 1900, 1916-1956  
(in billions of dollars)

Year	Gross National Product	Total		Public Debt						Total Debt	Private Debt
		Public	Private	Total Debt	Debt GNP	Federal Debt	Debt GNP	State & Local Debt	Debt GNP		
1900	18.6	34.3	1.84	3.2	.17	1.2	.06	2.0	.11	31.1	1.67
1916	48.9	83.6	1.71	7.1	.15	1.2	.02	5.9	.12	76.5	1.56
	64.5	96.1	1.49	13.7	.21	7.4	.11	6.3	.10	82.4	1.28
	77.2	119.9	1.55	28.4	.37	21.6	.28	6.8	.09	91.5	1.19
1920	85.3	130.3	1.53	33.1	.39	26.1	.31	7.0	.08	97.2	1.14
	91.3	138.0	1.51	32.2	.35	24.1	.26	8.1	.09	105.8	1.16
	72.5	139.1	1.92	32.9	.45	23.8	.33	9.1	.13	106.2	1.46
	72.8	143.4	1.97	33.9	.47	23.6	.32	10.3	.14	109.5	1.50
	85.5	150.3	1.76	34.0	.40	22.8	.27	11.2	.13	116.3	1.36
	85.9	157.2	1.83	34.2	.40	22.0	.26	12.2	.14	123.0	1.43
1925	90.3	166.2	1.84	33.9	.38	21.0	.23	12.9	.14	132.3	1.47
	96.9	172.8	1.78	33.9	.35	20.2	.21	13.7	.14	138.9	1.43
	95.4	181.6	1.90	34.0	.36	19.2	.20	14.8	.16	147.6	1.55
	97.2	190.3	1.96	34.2	.35	18.5	.19	15.7	.16	156.1	1.61
1930	104.4	195.9	1.88	34.7	.33	17.5	.17	17.2	.16	161.2	1.54
	91.1	196.2	2.15	35.8	.39	17.3	.19	18.5	.20	160.4	1.76
	76.3	186.5	2.44	38.6	.51	19.1	.25	19.5	.26	147.9	1.94
	58.5	179.1	3.06	42.4	.72	22.8	.39	19.6	.34	136.7	2.34
	56.0	175.0	3.12	47.5	.85	27.7	.49	19.8	.35	127.5	2.28
	65.0	182.2	2.80	57.1	.88	37.9	.58	19.2	.30	125.1	1.92
1935	72.5	185.2	2.55	61.0	.84	41.7	.58	19.3	.27	124.2	1.71
	82.7	191.1	2.31	64.7	.78	45.1	.55	19.6	.24	126.4	1.53
	90.8	194.1	2.14	67.4	.74	47.8	.53	19.6	.22	126.7	1.40
	85.2	190.1	2.23	67.0	.79	47.4	.56	19.6	.23	123.1	1.44
	91.1	194.4	2.13	70.1	.77	50.1	.55	20.0	.22	124.3	1.36

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TABLE IV (Cont'd.)

Year	Gross National Product	Total		Public Debt						Total Private	
		Public and Debt	Private Debt GNP	Total Debt	Debt GNP	Federal Debt	Debt GNP	State & Local Debt	Debt GNP	Debt	Debt GNP
1940	100.6	202.4	2.01	73.8	.73	53.6	.53	20.2	.20	128.6	1.28
	125.8	228.2	1.81	89.2	.71	69.0	.55	20.2	.16	139.0	1.10
	159.1	284.4	1.79	142.9	.90	123.2	.77	19.7	.12	141.5	.89
	192.5	349.7	1.82	205.4	1.07	186.7	.97	18.7	.10	144.3	.75
	211.4	416.0	1.97	271.2	1.28	253.7	1.20	17.5	.08	144.8	.68
1945	213.6	449.1	2.10	309.2	1.45	292.6	1.37	16.6	.08	139.9	.65
	209.2	442.1	2.11	288.0	1.38	272.1	1.30	15.9	.08	154.1	.74
	232.2	466.3	2.01	286.6	1.23	269.8	1.16	16.8	.07	179.7	.77
	257.3	477.6	1.86	276.7	1.08	258.0	1.00	18.7	.07	200.9	.78
	257.3	498.7	1.94	287.0	1.12	266.1	1.03	20.9	.08	211.7	.82
1950	285.1	541.5	1.90	290.6	1.02	266.4	.93	24.2	.08	250.9	.88
	328.2	579.4	1.77	297.2	.91	270.2	.82	27.0	.08	282.2	.86
	345.4	615.4	1.78	308.9	.89	279.3	.81	29.6	.09	306.5	.89
	363.2	651.6	1.79	322.0	.89	289.3	.80	32.7	.09	329.6	.91
	361.2	674.9	1.87	332.3	.92	294.4	.82	37.9	.10	342.6	.95
1955	391.7	730.9	1.87	345.0	.88	301.8	.77	43.2	.11	385.9	.99
1956	414.7	764.2	1.84	348.5	.84	300.5	.72	48.0	.12	415.7	1.00

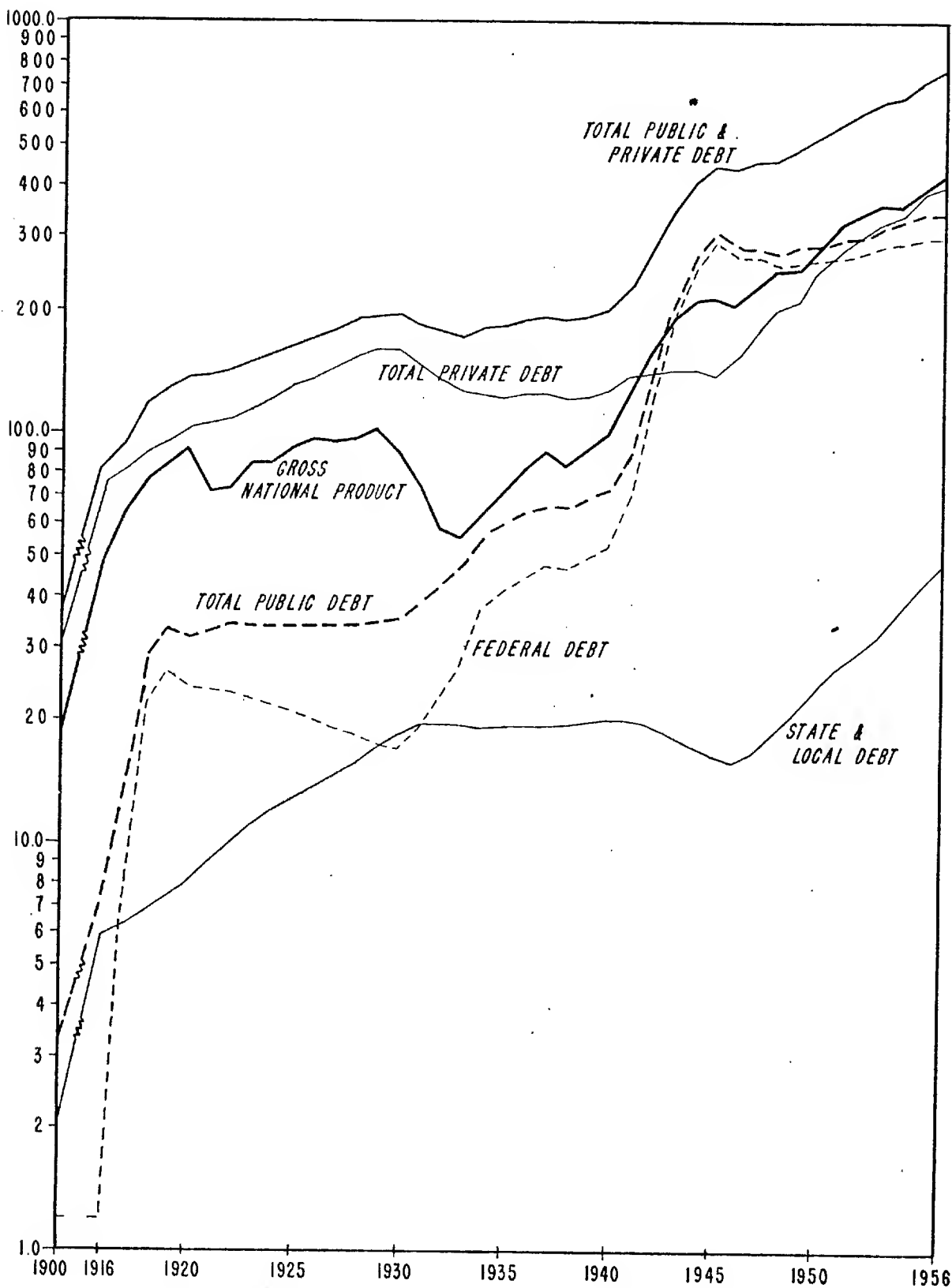
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PUBLIC DEBT, PRIVATE DEBT, AND GROSS NATIONAL PRODUCT, 1900, 1916-56

( IN BILLIONS OF DOLLARS )



the time when this has happened the one has compensated for the other. It is worth noting however that concentration of borrowing in one sector or another imposes some strain on the borrowing sector - a strain that may lead it to curtail its borrowing. The failure of both public and private sectors to borrow savings would lead to a decline in income and employment.

#### LIMITATIONS ON PUBLIC DEBT

The practice of limiting federal, state or local debt is not new. Legal limitations have been used for many years for various purposes: (a) to impose an absolute limit on debt, (b) to insure greater solvency, (c) to curb expenditures, (d) to require legislative bodies to face the fiscal problems imposed by additional expenditures, and (e) to impose on those bodies the necessity to provide additional tax revenues for additional expenditures. These purposes are often attained at least in part by legal debt limits.

But debt limits have other effects as well. Effective limitations on federal expenditures or state and local expenditures do not necessarily limit debt in the economy. During a period of economic growth such limitations force debt into other channels. Thus, the recent limitations on federal debt have been accompanied (a) by growing debt of federal agencies not restricted by the debt limit, (b) by a rapid expansion of state and local government debt, and (c) by a rapid growth of private debt.

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The ratio of federal debt to GNP is still higher than it ever was before World War II, but it has been falling since 1945. The ratio of state and local debt to GNP is below the levels of the 1920's and rising. The ratio of private debt to GNP is considerably lower than it was before the depression of the 1930's. It has been rising since the low point in 1945.

Debt limits on public debt in a growing economy are likely to have several effects. They force a curtailment of public services that may restrict growth, or they induce the provision of those services in some other way. In consequence they induce increased financing through debt by other governmental units or by private enterprise. Over-all debt fails to grow only in the absence of growth in GNP. The only period of this stability in this century is that of the 1930's when GNP was depressed below the long-run trend.

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SECTION VI

FOREIGN POLICY

The Security Resources Panel was asked to consider the political and economic consequences of a program designed to reduce the vulnerability of the civilian population. The Panel has not had available the specialized personnel, nor the time, to arrive at findings as to political consequences which can claim pretension to certainty. However, the political consequences, not only domestically but world-wide of a decision by the United States Government to undertake programs of the nature and magnitude suggested in the preceding sections, would undoubtedly be of such a massive nature that the Panel has concluded that it should offer its best judgment as to the probable nature of these consequences.

An isolated decision to shift substantial additional resources to programs designed to reduce the vulnerability of the civilian population would have serious international repercussions. If not carefully integrated into an over-all positive foreign policy program, the Panel believes such a decision would be generally interpreted as signaling a definite retreat by the U.S. toward fortress America, as presaging a serious weakening of our ties to the coalition of Free Nations and to our allies, and as indicating a new estimate by the U.S. that general thermonuclear war had become probable. The Soviet leaders could be expected fully to

exploit the resulting uncertainties, possibly even to the point of armed aggression, in an attempt to improve their situation to the maximum degree possible prior to the time when the new programs could produce positive results in actually reducing the vulnerability of the United States.

It therefore is the opinion of the Panel that a program to reduce the vulnerability of the United States and its population should be undertaken as part of a broad and general program to improve the security and political position of the Free World as a whole, and thus correspond to the enlightened self-interest of the United States. The Panel believes that such a program, while expensive and making manifold requirements on the capacities for sacrifice, imagination and fortitude on the part of our people and those of other nations, is not impossible of accomplishment. It might involve elements of the following type:

a. An allocation of domestic resources to international and defense programs comparable to that existing during the Korean War - some 12 - 14 per cent of Gross National Product. To make this economically possible would require greater flexibility in the debt ceiling, the indefinite postponement of tax relief, and possibly some tax increases, the cooperation of labor and of industry.

b. A coupling of measures designed to reduce the United States vulnerability to nuclear attack with measures designed to reverse our growing reliance upon nuclear weapons as the principal military support of our foreign policy.

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The increased resources made available under a. would permit simultaneous improvement of SAC vulnerability, continental defense, passive defense and the rebuilding of our ground and sea forces available to handle limited military operations.

c. A request to our allies to reverse the trend toward inadequate ground and sea forces by their allocations to defense of percentages of Gross National Product comparable to those which they were contemplating at the time of the Lisbon meeting in 1952. This request would have little prospect of success unless we were prepared to increase our aid to them. It may also be necessary to supply NATO with nuclear weapons, which would remain in U.S. custody in peacetime, for wartime use under the NATO Supreme Command, if the necessary confidence in the program is to be restored.

d. Measures designed to pool and make more effective the economic, technological, and political resources of ourselves and our allies. A number of specific measures have been suggested and could be elaborated.

e. Measures designed to assure the new nations in the partially committed areas that they are not only not being abandoned, but that an added cutting edge is being given to our policy toward them. We must meet the threat to our security which arises out of political and economic trends

in these areas as well as out of over-all military trends. We cannot protect our security through military measures alone. Assistance to India in meeting the requirements of its five-year plan could make a major contribution in this direction.

f. Measures designed to reinforce the prospect of successful negotiation with the Russians. An increased exchange of persons program might be one element of a program to increase our psychological penetration of the USSR and the satellites as a step in improving our prospects of negotiating from the improved posture of strength which the other elements of the program could be expected to achieve.

We would thus improve the prospect of getting Russian agreement to the type arms control and regulation agreement which the world so desperately needs. No one of the elements of such a comprehensive program might be either possible or wise by itself. Together, as parts of a general program they may well become possible because of the immensely increased support for U.S. security programs which they would generate in the U.S. and the increased level of hope and of confidence which they could give to advocates of freedom everywhere.



16 May 1973

MEMORANDUM FOR: Mr. Richard C. Tufaro  
Staff Assistant, ICRC  
The White House

SUBJECT: Declassification Review of Background  
Material for NSC 5724 ←

REFERENCE: Your Memo, dated 26 March 1973, to  
Mr. Lawrence R. Houston, Same Subject

The background material for the Gaither Report has been reviewed by the appropriate officers from the Agency. With the exceptions noted below, we have no objection to its declassification and release:

- a. Volume 1, Part A. The sentence beginning on line 9, p. A-6 should be excised ("In this connection ... number of bombers.").
- b. Volume 1, Part B. The sentence beginning on line 17, p. B-22, and the sentence following it should be excised ("The current capabilities... of strategic warning.").
- c. Volume 1, Part D. If this has not already been done, Agency specialists recommend that the material on pp. D-23 (The Decoy Problem), D-33 (Summary of Decoy Research Needs), and D-41 (Decoy Discrimination) should be reviewed by competent authorities from the Department of Defense before declassification.

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